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Bill Hannay, "Long Arm of the Law: Google and ReDigi" (2017). *Proceedings of the Charleston Library Conference*.

<http://dx.doi.org/10.5703/1288284316783>

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Long Arm of the Law: Google and ReDigi

Presentation by Bill Hannay, Schiff Hardin LLP

The following paper was submitted by William Hannay for his presentation at the Long Arm of the Law panel.

Down Memory Lane: The Right to Be Forgotten

The European Court of Justice is set to rule on a landmark case over whether or not the so-called “right to be forgotten” can and should stretch beyond EU borders. It will be the final step in a three-year legal battle between Google and France to determine how far the search engine should go to guarantee the privacy of European citizens who want their pasts to be wiped from the historical record over the Internet.

In June of this year, the Canadian Supreme Court held that a court could issue an injunction forcing Google to scrub search results about pirated products not just in Canada, but everywhere else in the world too.

But Wait . . . There’s Breaking News

Just days ago, on November 3rd, a federal trial judge in California blocked an order from Canada’s highest court that would have forced Google to delist worldwide search results for a company accused of selling products containing stolen trade secrets. The U.S. judge issued a preliminary injunction against the Canadian court’s order, which he said conflicted with U.S. federal law.

Hmmm—Is war between the countries in the offing?

Wait . . . There’s More Google News

In June of this year, European competition officials announced that they would fine Google a record 2.4 billion euros (that’s \$2.7 billion in real money) for unfairly favoring some of its own services over those of rivals in search results.

The fines may go higher depending on how Google responds to the changes that it will have to make to comply with the antitrust decision.

Now Let’s Turn to Copyright Issues

Did you hear about the decision of the European Court of Justice in November 2016 about libraries and the lending of e-books?

First reports made it sound like the answer to a library’s prayer: Provided that they pay statutory fees to authors, libraries do not need prior permission to lend e-books in their collections on a one-copy-one-user basis. Sounds great, right?

The ECJ held that European law allows the lending of a digital copy of a book, where that lending is carried out by placing that copy on the server of a public library and allowing a user to reproduce that copy by downloading it onto his own computer, bearing in mind that only one copy may be downloaded during the lending period and that, after that period has expired, the downloaded copy can no longer be used by that user.

But There’s a Catch . . . Isn’t There Always?

The court made clear, however, that a European country may condition this lending right on the condition that the e-book has been brought into circulation by an initial sale or other transfer of ownership of that copy within the European Union by the rightholder or with his consent.

Aye, there lies the rub!

Are publishers in the habit of “selling” or otherwise transferring ownership of copies of their e-books? Well, no. They prefer to license their e-books for use, not to “sell” them. In any event, e-books are not normally suitable for lending without technical changes.

An August 2017 report by the director of EBLIDA says that “Less than a year after the case, its concrete impact on libraries in Europe remains debatable.”

But Possibly the ReDigi Case Will Fix Things

Do you know the ReDigi case? It’s very interesting.

ReDigi is an online “marketplace” for pre-owned digital products (i.e., digital music, e-books, games,

apps, and software). It appears to be the only cloud storage service that verifies whether each digital file uploaded for storage was legally acquired from an eligible source.

Unlike the ill-starred Napster service, which allowed outright copying of music files, ReDigi purports not to involve “copying” but rather involves an outright transfer from the old owner’s computer to the new owner.

Tell Me Again . . . What is ReDigi?

ReDigi was launched in October 2011 as the brainchild of entrepreneur John Ossenmacher, along with his daughter, who had the idea of creating an online “drop box” where people could donate their unwanted digital media.

ReDigi does not buy pre-owned digital media from its users. Rather, ReDigi’s system is set up in a way that allows users to buy and sell pre-owned digital content directly from one user to another.

ReDigi asserts that its process involves “migrating” a user’s file, packet by packet—“analogous to a train”—from the user’s computer to ReDigi’s “Cloud Locker” so that data does not exist in two places at any one time.

Recording companies assert that, semantics aside, ReDigi’s upload process “necessarily involves copying” a file from the user’s computer to the “Cloud Locker.”

Regardless, at the end of the process, the digital music file is located in ReDigi’s Cloud Locker and not on the user’s computer. ReDigi’s app deletes any additional copies of the file on the user’s computer and connected devices.

If a user chooses to sell his digital music file, his access to the file is terminated and transferred to the new owner at the time of purchase.

The Case of *Capitol Records v. ReDigi, Inc.*

In Jan. 2012, Capitol Records sued ReDigi in federal court in New York City, alleging that the online service had infringed its copyrights. Capitol is the label for many famous musical artists ranging from Katy Perry and Mary J. Blige to Bob Seger and the Eagles.

In Feb. 2012, U.S. Dist. Judge Richard Sullivan denied a motion for preliminary injunction because Capitol had failed to show “irreparable injury.” Capitol then moved for summary judgment.

Judge Sullivan recognized that the novel question presented in this action is whether a digital music file, lawfully made and purchased, may be resold by its owner through ReDigi under copyright law’s “first sale” doctrine. The District Court also noted that courts have not previously addressed whether the unauthorized transfer of a digital music file over the Internet—where only one file exists before and after the transfer—constitutes illegal “reproduction” within the meaning of the Copyright Act.

After briefing and oral argument Judge Sullivan held that the digital files may not be resold and that the transfer (even when the original disappears) is an illegal “reproduction.” The court concluded that ReDigi’s service infringes Capitol’s reproduction rights under any description of the technology.

ReDigi stressed that it “migrates” a file from a user’s computer to its Cloud Locker, so that the same file is transferred to the ReDigi server and thus no copying occurs. However, in the court’s view, even if that were the case, the fact that a file has moved from one material object (i.e., the user’s computer) to another (i.e., the ReDigi server) means that a “reproduction” has occurred. Similarly, when a ReDigi user downloads a new purchase from the ReDigi website to her computer, yet another reproduction is created. It is beside the point that the original phonorecord no longer exists. It matters only that a new phonorecord has been created.

In Judge Sullivan’s view ReDigi’s service of necessity creates a new material object when a digital music file is either uploaded to or downloaded from the Cloud Locker. The court therefore concluded that the sale of digital music files on ReDigi’s website infringed Capitol’s exclusive right of reproduction.

The court also rejected ReDigi’s fair use defense. Judge Sullivan held that none of the four fair use factors in Section 107 of the Copyright Act favored ReDigi’s position. His key determination was that ReDigi’s system was commercial, but not “transformative,” and that its use would cause a significant negative effect on the market value of the copyrighted works.

Based on its analysis, the district court granted Capitol's motion for summary judgment. *See* 934 F.Supp.2d 640 (S.D.N.Y. 2013).

In July 2016, ReDigi filed an appeal with the U.S. Court of Appeals for the Second Circuit in New York City.

Thereafter, in August 2016, ReDigi and Mr. Ossenmacher filed for protection under Chapter 11 of the Bankruptcy Code. (Capitol then attempted to convert this into a Chapter 7 liquidation.)

On May 18, 2017, the Court of Appeals granted ReDigi's motion for expedited argument of the case.

The ALA and Other Library Organizations Defend ReDigi

In February 2017, the ALA, ACRL, ARL, and the Internet Archive jointly filed a brief with the 2d Circuit, seeking to argue in favor of ReDigi, stating that:

A growing percentage of libraries' collections consist of materials in digital form. *** [L]ibraries need to ensure that they can employ existing copyright exceptions and limitations in the digital environment. *** Amici believe that fair use enables the application of the first sale right with respect to the transmission of digital works in appropriate circumstances.

On August 22nd, a panel of three judges heard oral argument on ReDigi's appeal. The hearing was originally scheduled to last only 24 minutes, but it stretched past two hours as the discussion went back and forth.

Much of the first hour was taken up by trying to figure out how the ReDigi technology worked. To illustrate the way that ReDigi's system operates, their lawyer took a book in his left hand and then moved it over to his right hand. "It's the same book," he said. "That's what ReDigi's technology does."

Circuit Judge Newman asked if the copy of the song was still on the original purchaser's hard drive: "What happened to it? Has it been eliminated?"

"No, it's been moved," ReDigi's lawyer replied.

The questions asked by Circuit Judge Leval, who is a sophisticated thinker on copyright issues—he

wrote the court's opinion in the *Google Books* case—focused on the issue of "materiality," which is often referred to as "physicality" as well. (If the electronic file has materiality, the first sale doctrine is more likely to apply.) But what does "material" really mean?

ReDigi's lawyer responded that there's no difference between a record on a phonograph and a music file on a computer. And Capitol's said that it requires someone to "sense" the object. Judge Leval remarked that perceiving sound was enough.

At the oral argument, Prof. Jason Schultz of NYU Law School spoke on behalf of a group of copyright scholars who appeared as *amicus curiae*. He argued that the first-sale doctrine did not die with the emergence of digital media and that Congress had not done anything to expressly limit the doctrine to analog works in the DMC Act.

"Why is this not like a used CD store?" Judge Pooler asked Capitol's lawyer. His answer was the same assertion relied on by Judge Sullivan in the trial court: "it's not possible to transfer without making a reproduction." He compared it to photocopying a book, throwing the book out, and trying to sell the copy.

In the end, Capitol is arguing that the first-sale doctrine does not apply to digital works.

When Will the Second Circuit Decide the Case?

It is likely to take many months for the appellate court to issue a decision. (It took them 10 months to decide *Google Books*.) Moreover, it may not end even then. During oral argument, Judge Leval commented that the case had a "high likelihood" of being taken up by the Supreme Court.

But considering that ReDigi is in bankruptcy, it may not have money to fight that long.

What More Is There to Be Said?

We have heard from the recording and publishing industries, from ReDigi, from copyright scholars, and from libraries.

Who have we not heard from? The digital media itself. So let's ask a musical medium.

(With thanks and apologies to Leslie Gore and Philadelphia songwriters John Madara and David White)

You don't own me;
I'm not just one of your normal books.
You don't own me;
I'm licensed only for Kindles and Nooks.
So don't try to retail me!
Don't think I'm physical!
And please, when you try selling me,
Don't forget I'm digital . . . 'cause
You don't own me;
Don't try to change me in any way.

You don't own me;
Don't transfer me 'cause you'd have to pay.
I don't tell you what to play;
I don't tell you what to read.
Please observe my right of way,
That's the thing that you agreed.
I'm code and I love to be code;
At ease, 'cuz I'll never unfreeze.
Don't think I'm in some transfer mode;
You can't do whatever you please.
W. M. H.